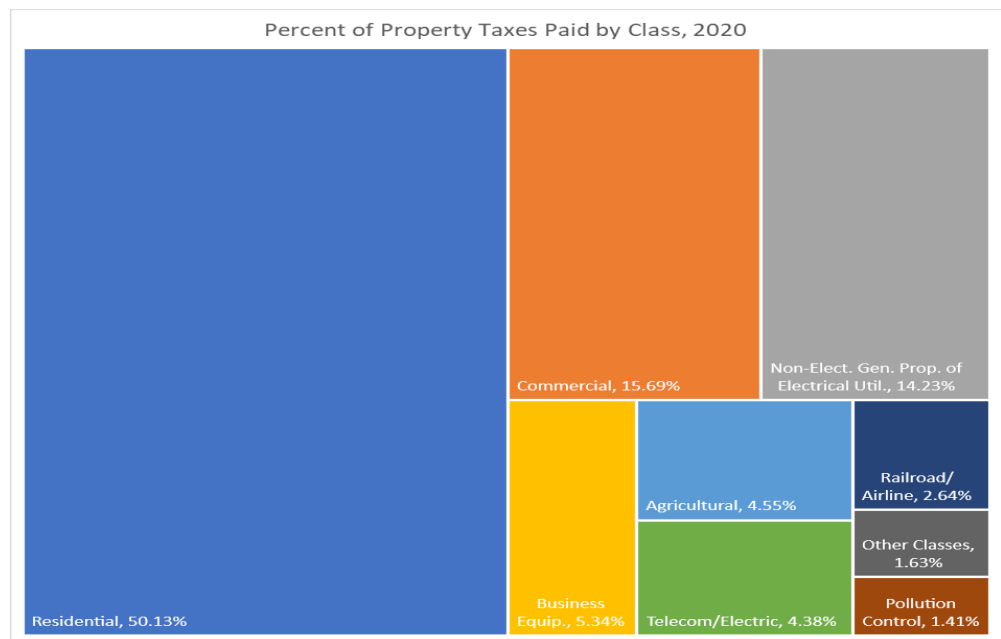


PROPERTY REAPPRAISAL PLANNING

RESIDENTIAL VALUES LIKELY TO INCREASE

Considerable increases in residential property prices since the 2021 reappraisal are likely to result in increased property values for residential property in the 2023 reappraisal cycle.

If residential property values increase more than values for other property types, taxes paid by residential property could account for a larger share of total property taxes paid. In 2020, taxes paid by residential property accounted for just over 50% of total taxes paid.



The taxes paid by each class of property are a result of the value of the property multiplied by the tax rate (the taxable value), then by the mills levied on the property.

A change in taxable value results from a change to either of the components: the property value or the tax rate. Most property is valued using market value. The exceptions are agricultural property and forest property, which are valued using productivity value.

The Legislature sets the tax rates for each class of property in state law. Rates for residential, commercial, and agricultural property are unchanged since 2015, when the Legislature moved these properties to a 2-year reappraisal cycle and adjusted tax rates.

School districts, cities, counties, and special districts set mill levies based on their budgets. The state levies 95 mills for K-12 education and 6 mills for the state university system.

Taxing jurisdictions other than school districts are subject to a levy limit in [15-10-420](#), MCA. Under the operation of the levy limit, an increase in the taxable value within a taxing jurisdiction generally results in a reduction in the mill levy.¹ However, the impact on each property will vary based on the property types within the taxing jurisdiction and the change in value relative to other property.

TAXABLE VALUE NEUTRAL TAX RATES REPORT IN NOVEMBER

At the November meeting, the committee will get an idea of how much residential property values will change in 2023. The Department of Revenue will report on the change in value for residential, commercial, and agricultural property. As required by law, the report will also include tax rates for the upcoming reappraisal cycle that will result in taxable value neutrality for those property classes.

The [report](#) for the 2021 reappraisal cycle showed the following estimated changes in market value and taxable value neutral rates.² The Legislature considered but did not pass legislation to adopt the taxable value neutral rates.³

Tax Class	TY 2020 Market Value (Billions)	TY 2021 Market Value (Billions)	% Change in Market Value	2019 Tax Rate	2021 Taxable Value Neutral Rate
Residential	\$116.620	\$130.682	12.06%	1.35%	1.20%
Commercial	\$22.890	\$25.371	10.84%	1.89%	1.70%
Agricultural	\$6.944	\$2.392	0.79%	2.16%	2.14%

¹ The total mill levy may not decrease as taxable value increases if voters approved levy increases, new levies, or bond issues.

² Eric Dale, "[Update on Taxable Value Neutral Rates for TY 2021 Reappraisal Cycle](#)," Nov. 19, 2020.

³ [House Bill 636](#) failed in the House Taxation Committee.

POSSIBLE MODEL: 2009 SELECT COMMITTEE ON REAPPRAISAL

If there is interest in revising property tax laws to mitigate anticipated increases in residential property values, the Legislature may wish to appoint a select committee to consider options. Examining the impacts of property tax changes can be difficult because of the interaction of tax rates that vary by property class and variations in mill levies in different taxing jurisdictions. The 2009 Legislature's Select Committee on Reappraisal, formed after the 2008 housing crash, may serve as a model.

The work of the 2009 Select Committee on Reappraisal resulted in a law to address effects of the 2008 housing crash on reappraisal.

The 2009 Select Committee on Reappraisal was a joint committee consisting of eight members of the Taxation Committees - four from each chamber. The select committee met twice a week for about two hours each day during the first two months of the legislative session.

The select committee studied the history of reappraisal and relevant court decisions and developed and analyzed legislative proposals. The Department of Revenue provided much of the analysis for the select committee.

The select committee's work led it to request [House Bill 658](#), which revised tax rates, property assistance programs, and valuation methods. Once introduced, the bill followed the regular bill process. This required the select committee to conclude its work in time for the bill to meet the revenue bill transmittal deadline.

NEXT STEPS: POSSIBLE NOVEMBER ACTION

This information is provided so the committee may consider how to approach and plan for legislative action related to the 2023 reappraisal cycle. After the November report by the Department of Revenue, the committee will have a better sense of whether property tax revisions may be a priority during the 2023 legislative session.

The committee may consider the following actions, depending on the November report:

1. If interested in a 2023 select committee, write a letter to leadership suggesting the appointment of such a committee.
2. Provide feedback to the Legislative Fiscal Division on their property tax model and request functions that support consideration of impacts of reappraisal on property taxpayers at the local level.